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FM AMEMBASSY HARARE

TO RUEHC/SECSTATE WASHDC PRIORITY 2345

INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

RUEHUJA/AMEMBASSY ABUJA 1811

RUEHAR/AMEMBASSY ACCRA 1708

RUEHDS/AMEMBASSY ADDIS ABABA 1836

RUEHBY/AMEMBASSY CANBERRA 1113

RUEHDK/AMEMBASSY DAKAR 1470

RUEHKM/AMEMBASSY KAMPALA 1892

RUEHNR/AMEMBASSY NAIROBI 4320

RUEHGV/USMISSION GENEVA 0963

RHEHAAA/NSC WASHDC

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RUEHC/DEPT OF LABOR WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RHEFDIA/DIA WASHDC//DHO-7//

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RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//

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C O N F I D E N T I A L SECTION 01 OF 02 HARARE 001137

SIPDIS

C O R R E C T E D COPY (RENUMBERED PARAGRAPHS)

SIPDIS

AF/S FOR S. HILL

NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN

STATE PASS TO USAID FOR L.DOBINS AND E.LOKEN

TREASURY FOR J. RALYEA AND T.RAND

COMMERCE FOR BECKY ERKUL

ADDIS ABABA FOR USAU

ADDIS ABABA FOR ACSS

E.O. 12958: DECL: 11/21/2017

TAGS: EFIN ECON PGOV ZI

SUBJECT: IMF MISSION CHIEF WARNS THAT ZIMBABWE'S HYPERINFLATION IS UNSUSTAINABLE

REF: HARARE 01134

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Classified By: Pol/Econ Deputy Chief Frances Chisholm. Reason: 1.4 (d)

Summary

¶1. (C) IMF Mission Chief Robert Sharer on December 13 told a gathering of ambassadors from donor countries that Zimbabwe's economic situation was gloomy and worsening. Inflation had begun to grow exponentially and had probably reached 100,000 percent. Real output had probably contracted by about 6 percent in 2007. Sharer said the economic side of the house under present policies was unsustainable, but Zimbabwe had entered totally uncharted territory and he could not see the endgame. He expressed alarm at the devastating rate of skills loss, the deterioration in infrastructure, and, going forward, the GOZ's proposed economic policies that were largely more of the same. At the same time he acknowledged the private sector's dynamism and its ability to adapt and cope. In addition, the strong flow of remittances served as a safety valve for the economy. End Summary.

Inflation Of 100,000 Percent And Growing Exponentially

¶2. (C) In an outbrief for donor-country ambassadors hosted by

Ambassador McGee on December 13, IMF Mission Chief Robert Sharer said Zimbabwe's rate of inflation had most likely begun to grow exponentially in March and had probably reached 100,000 percent; real output had contracted by about 6 percent this year. He found it hard to see the economy continuing for 12 more months under present policies, but Zimbabwe had entered totally uncharted territory and he could not foresee the endgame.

¶3. (C) Visiting Zimbabwe for the first time since taking over the Zimbabwe portfolio, Sharer said the country was in a vast downward spiral marked by huge, endemic economic distortions that were generating corrupt practices. He asked rhetorically where else in the world anyone would pay a 30 percent premium for cash that was depreciating at an annual rate of 100,000 percent, as Zimbabweans were doing at the height of the cash shortage (reftel) during the one-week mission. He called the pace of skills loss to emigration devastating and the prospects for maintaining the country's deteriorating infrastructure by scavenging gloomy. Nevertheless, the infrastructure was still better than in several neighboring countries despite 7 years of decline. He also noted the important role that remittances played as a safety valve for Zimbabwe.

"More Of The Same" Economic Policies

¶4. (C) The mission chief said that the GOZ's short-term stabilization program had good overall objectives (lower inflation, increase growth) but the policies were simply "more of the same," thus dooming the program to failure. The essence of the solution to Zimbabwe's economic woes was to stop creating money. RBZ Governor Gono, however, was conducting expansionary quasi-fiscal activities in real terms, and applying nothing more than a series of patches to

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keep things going.

¶5. (C) As of the penultimate day of the mission, Sharer had not been able to secure a meeting with any one of the three key principal interlocutors for the Fund. He noted that cooperation at the technical level at the RBZ, Ministry of Finance, and Ministry of Economic Development during the mission had been excellent, and felt that his interlocutors in government were technically impressive and shared the IMF's views on Zimbabwe.

Dynamic Private Sector Still With Confidence in Future

¶6. (C) On a positive note, Sharer commended the dynamism and market orientation of Zimbabwe's private sector, and its confidence in the long-run future of the country. (Note: Embassy arranged meetings for the mission with industry representatives, as well as a weekend visit to a commercial, a communal and a resettled farm on the outskirts of Harare. End Note.) Sharer said the Zimbabwe economy, under good policies, could probably turn around faster than that of many other countries, and the private sector's ability to adapt and cope bode well for the future.

¶7. (C) In closing, Sharer said he had told his GOZ interlocutors that the IMF was Zimbabwe's long-term friend and stood ready to help once the right economic decisions were made. He said he planned to return on an Article IV mission soon after the elections expected to be held March.

Comment

¶8. (C) Although the IMF mission came to Zimbabwe at the

explicit request of Finance Minister Samuel Mumbengegwi, we see no indication that the country's economic policy makers are seeking any serious engagement with the IMF. 2007 is drawing to a gloomy close amid quickening economic decline and no hint of policy change on the economic front.

MCGEE